

Message Text

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PASS COMMERCE FOR BEWT/TDAD AND USSR

VIENNA FOR EWTC

E.O. 11652: GDS

TAGS: ETRD ECRE ENRG EMIN UR US

SUBJECT: REVIEW OF POSSIBLE COMPENSATION PROJECTS WITH USSR

MINISTRY OF FOREIGN TRADE OFFICIALS

REF: A) MOSCOW 2135, B) MOSCOW 14838 (OCT 1, 1974)N C)

MOSCOW 2113

1. SUMMARY: COMMATT, BEWT'S PLANAGAN, AND COMMOFF MET FEB 13 AT USCO WITH S.V. TSUKANOV, CHIEF OF RECENTLY-ORGANIZED ADMINISTRATION FOR COMPENSATION PROJECTS IN MACHINE-BUILDING, RAW MATERIAL, FERROUS AND NON-FERROUS METALS, LIGHT, FOOD, AND OTHER INDUSTRIES, MINISTRY OF FOREIGN TRADE (MFT); AND GENNADIY TEREKHOV, EXPERT IN SAME ADMINISTRATION, TO REVIEW MAJOR SOVIET PROJECT PROPOSALS INVOLVING POSSIBILITY OF PAYMENT IN END PRODUCTS TO U.S. PARTICIPANTS. (TSUKANOV APPEARS TO HAVE ASSUMED MANY OF DEPUTY MINISTER SUSKOV'S FORMER RESPONSIBILITIES IN THIS AREA,) DISCUSSIONS COVERED BOTH OLD AND NEW PROJECTS INCLUDING ALUMINUM, YAKUTSK GAS, NORTH STAR GAS, TYUMEN'

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GAS AND OIL, SAKHALIN GAS AND OIL, PULP AND PAPER, DIRECT IRON ORE REDUCTION, OFFSHORE DRILLING PLATFORMS AND EQUIPMENT, AND

HEAVY TRUCK, TRACTOR, AND DIESEL ENGINE PROJECTS. TONE OF MEETING CORDIAL AND FORTHCOMING. FOLLOWING DETAILS SHOULD BE COMPARED WITH INFORMATION PROVIDED RECENTLY BY SCST OFFICIALS (REF A). END SUMMARY.

2. ALUMINUM: TSUKANOV EMPHASIZED THAT MFT HAD ONLY RECENTLY ENTERED DISCUSSIONS WITH KAISER AND THAT MINISTRY WOULD ASSUME PRIME ROLE FOR COMMERCIAL PHASE OF NEGOTIATIONS. DEPUTY MINISTER SUSHKOV PLANS DISCUSSIONS WITH KAISER DURING CURRENT U.S. TRIP AND WILL PRESENT COMPANY WITH LIST OF PROJECT-RELATED QUESTIONS. DEPENDING ON FORMAL KAISER RESPONSE, MINISTRY EXPECTS TO SCHEDULE WORKING MEETING WITH COMPANY LATER IN 1975. TSUKANOV AGREED THAT PROJECT SHOULD NOT BE STYMIED BY HIGH U.S. (NON-MFN) DUTIES ON ALUMINUM INGOT AS PRODUCT COULD BE SOLD IN OTHER MARKETS. (SEE SEPTTEL FOR COMMENTS OF DEPUTY MINISTER OF NON-FERROUS METALLURGY.)

3. JOINT EXPLORATION OF BARENTS SEA SHELF: TSUKANOV ADVISED THAT SOVIETS ARE FOCUSING INCREASINGLY ON DEVELOPMENT OF OIL AND GAS DEPOSITS ON SHELF AT EXPENSE OF MORE INACCESSIBLE TYUMEN' FIELD. COMPENSATION WOULD BE IN FORM OF OIL AND/OR GAS THROUGH ARRANGEMENT SIMILAR TO THAT CONCLUDED WITH JAPANESE FOR FIELDS OFF SAKHALIN. IN RESPONSE TO SOVIET INITIATIVE, GULF, MOBIL AND U.S. OILFIELD SERVICE COMPANIES HAVE EXPRESSED INITIAL INTEREST IN POSSIBLE PARTICIPATION.

4. YENISEI PULP AND PAPER: INTERNATIONAL PAPER DISCUSSIONS WERE DESCRIBED AS PROCEEDING SMOOTHLY ON THIS ONE BILLION DOLLAR PROJECT. COMPANY NOW WORKING ON FINANCIAL ASPECTS WHICH COULD INCLUDE CONSORTIUM OF POTENTIAL WEST EUROPEAN CONSUMERS OF OUTPUT AS WELL EQUIPMENT MANUFACTURERS. TSUKANOV RECOGNIZED THAT INTERNATIONAL CONSORTIUM COULD BE NECESSARY IN THIS AND OTHER PROJECTS FOR BOTH TECHNICAL AND FINANCIAL REASONS.

5. DIRECT IRON ORE REDUCTION: SOVIETS STRESSED THAT AT PRESENT THEIR ATTENTION IS FOCUSED ON IMPLEMENTING AGREEMENT WITH FRG'S KORF AND KURSK DEPOSITS. MAGNITUDE OF DEPOSITS SUCH, HOWEVER, THAT SECOND OR THIRD PROCESS MIGHT BE EVENTUALLY USED. POSSIBILITY OF FUTURE ARMCO INVOLVEMENT RAISED BY SOVIETS.

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6. OFFSHORE DRILLING PLATFORMS AND EQUIPMENT: MINISTRIES OF OIL INDUSTRY AND FOREIGN TRADE GIVING HIGHEST PRIORITY TO ARMCO PROPOSAL TO DEVELOP THREE PLANTS FOR PRODUCTION OF SEMI-SUBMERSIBLE MOBILE DRILLING PLATFORMS, STATIONARY PLATFORMS, AND ANCILLARY SUB-SEA EQUIPMENT. POTENTIAL COST OF THREE PLANTS HAS BEEN ESTIMATED BY U.S. FIRMS AT 500 MILLION TO ONE BILLION DOLLARS. SEE REF B FOR PREVIOUS REPORTING ON THESE PROJECTS.

A) SEMI-SUBMERSIBLE PLATFORMS - ARMCO'S INTERNATIONAL

PRESIDENT GIFFEN CURRENTLY IN MOSCOW FOLLOWING VISIT ASTRAKHAN WHERE HE REVIEWED MODERNIZATION AND ADAPTATION OF EXISTING MINISTRY OF SHIPBUILDING FACILITY FOR PLATFORMS. FORMAL ARMCO PROPOSAL EXPECTED BY MARCH. OTHER U.S. FIRMS HAVE BEEN APPROACHED, INCLUDING MCDERMOTT.

B) STATIONARY PLATFORMS - SOVIETS ENVISAGE NEW PLANT AT BAKU FOR PRODUCTION OF PLATFORMS SIMILAR TO THOSE USED BY U.S. IN GULF OF MEXICO. INQUIRIES HAVE BEEN SENT TO BROWN AND ROOT AND MCDERMOTT.

C) ANCILLARY EQUIPMENT - PROJECT IS UNDER DISCUSSION WITH WEST EUROPEANS AND U.S. FIRMS INCLUDING C. JIM STEWART AND STEVENSON, HARNISCHFEGER, CAMERON, AND HYDRIL. ALL REQUESTED TO BID. SOVIETS VIEW IMPLEMENTATION OF THIS PROJECT AS KEY TO IMPLEMENTING A) AND B).

7. TRUCK, TRACTOR, AND DIESEL ENGINE PROJECTS: SOVIET CONCEPT HAS BEEN TO LUMP TOGETHER IN ONE COMPLEX SECOND (SIBERIAN) HEAVY TRUCK PLANT, 150 HORSEPOWER AGRICULTURAL TRACTOR PLANT, HEAVY CONSTRUCTION EQUIPMENT INSTALLATION, AND LARGE DIESEL ENGINE PLANT, BUT THIS MAY BE RECONSIDERED. TSUKANOV SAID THAT MFT RECOGNIZED THAT PROJECTS WERE EXTREMELY AMBITIOUS AND INDICATED THAT HIS MINISTRY HAD URGED MORE REALISTIC UNDERTAKINGS BY PRODUCTION MINISTRIES. DISCUSSING GM'S LONG-PENDING PROPOSAL FOR HEAVYTRUCK PLANT AT KRASNOYARSK, TSUKANOV SAID THAT SOVIET TECHNICIANS DIVIDED OVER MERITS TWO-STROKE ENGINE PROPOSED BY GM VERSUS FOUR-STROKE DESIGN NOW GENERALLY ACCEPTED IN USSR. FINAL GOAL WOULD BE TO PRODUCE 50,000 TRUCKS PER YER (CF REFS A AND C) SIMILAR TO FORD'S APPOLLO LINE. HEAVY CONSTRUCTION EQUIPMENT PLANT HAS BEEN SCALED DOWN
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SUBSTANTIALLY FROM ORIGINAL MINISTRY PROPOSAL, WHICH WAS DESCRIBED AS "BEYOND ANY REASONABLE EXPECTATION." THE CUMMINS 600 HORSEPOWER FOUR-STROKE DIESEL ENGINE PROPOSAL REMAINS UNDER REVIEW, AND SEVERAL CUMMINS ENGINES ARE UNDERGOING TESTS IN SOVIET UNION. OTHER FIRMS, INCLUDING FRG'S M.A.N. HAVE ALSO BEEN APPROACHED ON ENGINE PLANT. TSUKANOV NOTED THAT SOVIETS WOULD PUSH DEVELOPMENT OF THEIR 300 AND 500 HORSEPOWER ENGINES DESPITE NEGOTIATIONS WITH WESTERN FIRMS ON LARGER MODELS. ONLY SOVIET ENGINES WOULD BE USED IN TRACTORS PRODUCED AT KIROV PLANT IN LENINGRAD.

8. PROSPECTS: AT END OF THIS FORTHCOMINGPRESENTATION TSUKANOV NOTED FEARS IN MFT THAT U.S. FIRMS WOULD LOSE INTEREST IN COMPENSATION PROJECTS AS RESULT OF SOVIET REQUECTION OF TRADE ACT PROVISIONS. HE EXPRESSED HOPE THAT THESE FEARS WOULD NOT BE REALIZED. COMMATT ASSURED TSUKANOV THAT U.S. GOVERNMENT SUPPORT FOR DEVELOPMENT OF U.S.-SOVIET TRADE WAS UNDIMINISHED, AND THAT WE WOULD CONTINUE ENCOURAGE U.S. COMPANIES TO ENGAGE IN

MUTUALLY BENEFICIAL PROJECTS IN THE USSR.
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